

Decision 02-03-003 March 1, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (E 3338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E).

Application 00-11-056
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028
(Filed October 17, 2000)

**ORDER CORRECTING ERRORS IN
DECISION 02-02-052**

This order corrects certain errors that inadvertently appear in Decision (D.) 02-02-052 regarding the implementation of the California Department of Water Resources (DWR) revenue requirement for the service territories of the three major electric utilities. These corrections are clerical in nature, and are therefore made by order of the Commission's Executive Director pursuant to Resolution A-4661.

Summary of Corrections

DWR Cents/kWh Charge

Certain references to the remittance charge for customers in the service territory of San Diego Gas & Electric Company (SDG&E) require correction. The figure of 7.285 cents/kWh should be corrected to 7.121

cents/kWh. The figure of 7.121 correctly reflects the cents/kWh charge assigned to customers in the SDG&E service territory. The correction of this figure shall be made on pages 4, 104, and 115.

DWR Allocation Calculation

The DWR revenue allocation shown in thousands of dollars and in percentage terms, as set forth on page 77 is also in error. The figures shown on page 77 should be corrected to be consistent with the correct figures appearing on page 3 of the Decision. Accordingly, the figures on page 77 should be corrected to reflect the following amounts:

	(\$000's)	
Utility	Revenue Allocation	%Allocation
PG&E	\$ 4,507,238	49.8%
SCE	\$ 3,553,841	39.3%
SDG&E	\$ 984,383	10.9%
Total	\$ 9,045,462	100%

Payment of Shortfalls in Prior Period DWR Remittances

In the first full paragraph of page 96, in the first sentence, the words “one-time” should be deleted. Likewise, the second full paragraph on page 96 which begins with the words: “The separate lump sum payment...” through the end of that paragraph shall be deleted in its entirety. The references in this deleted text erroneously indicate that any prior period shortfalls in remittances are to be remitted as a single lump sum. This paragraph is inconsistent with the adopted remittance methodology as explained in the remaining paragraphs of that section, correctly indicating that any shortfall is to be remitted in installments over a six-month period.

Miscellaneous Corrections

In Appendix A, DWR corrected a mathematical error to its Lead (Lag) Accrual to Cash (Column H). Therefore, the amount on page 29 should now be \$10.648 million (lag). In addition, the March 1, 2002 date should be changed to March 15, 2002 on page 109 (Findings of Fact 63 and 64).

O R D E R

IT IS ORDERED that:

1. Decision (D.) 02-02-025 is amended to incorporate the corrections of clerical errors, as set forth in the text above.
2. Corrected pages are attached hereto, setting forth the corrections as noted above.
3. The revised pages, as incorporated herein, shall supersede the prior pages in the original version of D. 02-02-025, issued on February 21, 2002.
4. This order is issued by the Commission's Executive Director pursuant to Resolution A-4661.

Dated March 1, 2002, at San Francisco, California.

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

be necessary for DWR to include in rates at this time such costs that DWR does not expect to incur.

As described below, we agree with the goal of allocating DWR costs in relation to the costs of providing service. We do not believe, however, that segregating disproportionately higher priced DWR power for allocation exclusively to northern California consumers is a proper or fair application of traditional cost-based ratemaking policies. The primary purpose of the Public Utilities Act is to insure the public adequate service at just and reasonable rates without discrimination. (Pub. Util. Code §§ 451 et seq., 761; see also United States Steel Corp. v. Public Utilities Com., 29 Cal. 3d 603, 610 (1981), quoting Pacific Tel. & Tel. v. Public Utilities Com. 34 Cal.2d 822, 826 (1950).)

However, the allocation issue here, involving costs incurred by a single entity (i.e., DWR) purchasing power on behalf of customers in three separate utility service territories is novel, and is not addressed by traditional cost-based ratemaking procedures as typically applied. Nonetheless, the allocation approach we adopt is consistent with the philosophy underlying traditional cost-based ratemaking. Our adopted approach allocates DWR costs primarily in relation to the relevant cost driver, namely the net short position by utility.

Our allocation recognizes the integrated nature of power procurement undertaken by DWR for California utility customers, but also adjusts for utility-specific differences, where applicable, as proposed by SCE. As a basis for the utilities to remit revenues to DWR in accordance with these allocations, we adopt a per-kWh charge for customers in the service territory of each utility of 9.295 cents/kWh for PG&E, 9.744 cents/kWh for SCE and 7.121 cents/kWh for SDG&E. These adopted DWR charges form the basis for the utilities to remit funds to DWR that they are currently collecting.

Aglet argues that reliance on Commission-authorized uncollectibles factors will treat customers fairly and will have no effect on DWR's achieved revenues. Customer rates for each utility would include an uncollectibles allowance based on the authorized rate, billed revenues would be reduced using the authorized rate, and remaining cash revenues would be available for transmittal to DWR. Aglet argues that this outcome is administratively efficient because each utility will use a single uncollectibles factor for all of its retail rates, rather than determining rates based on two different factors.

DWR has explained that its forecasted allowance for uncollectibles was developed assuming a pro rata share of recently observed utility uncollectible accounts. (Reference Item C, DWR, November 5 revenue requirement document, p. 19.) As stated previously, DWR is charged with determining the justness and reasonableness of its revenue requirement, and this proceeding is not the forum in which to litigate the reasonableness of DWR's determination of this element of its revenue requirements. In the true-up of DWR's forecasted versus actual revenue requirement, relevant differences in uncollectibles expense can be taken into account.

In any event, whatever assumptions DWR makes concerning uncollectibles in its revenue requirements determination, we do not intend for the utilities to retain uncollectible allowances in excess of the amounts that have been adopted for utility ratemaking purposes. In this decision, we do not endorse the DWR uncollectibles factor of 0.0033.

F. Lead (Lag) Accrual to Cash

DWR adjusts its revenue requirement to account for the difference in time between the expenditure of cash to provide services to customers and the receipts of cash from them. Such amounts, totaling \$10.648 million (lag), for the Revenue Requirement Period are included in Appendix A under the column

Given these problems with each methodology, we find the proposal from SCE to be the most balanced. We therefore adopt the allocation methodology and percentages as computed by SCE. The resulting allocation of revenue requirement and associated percentages are as follows:

	\$000's	
Utility	Revenue Allocation	% Allocation
PG&E	\$ 4,507,238	49.8%
SCE	\$ 3,553,841	39.3%
SDG&E	\$ 984,383	10.9%
Total	\$ 9,045,462	100%

While we approve SCE's methodology, we are not convinced at this point to consider these allocations as interim, as proposed by SCE. Nor are we yet convinced of the necessity and benefit of modifying these allocations based on further analyses of hourly data that may become available in the future.

IX. Implementing Annual DWR Update Proceedings

A. Revisions of DWR Revenue Requirement

As prescribed in AB1X (Water Code Section 80134(a)), DWR will revise its retail revenue requirement at least annually. Consistent with the statute, we adopt a procedural plan for DWR to submit to the Commission updated forecasts of its retail revenue requirement on at least an annual basis.

The revenues provided to DWR from the charges that we implement in today's order (together with revenues that DWR has already collected from the utilities to date) will provide recovery of DWR's revenue requirements from January 17, 2001 through December 31, 2002.

We hereby schedule the next update of the DWR revenue requirement to be submitted to the Commission on June 1, 2002, with revised DWR charges to

take effect on January 1, 2003. At that time, DWR will submit a revised annual revenue requirement forecast covering the period January 1, 2003 through

each respective utility covering that period prior to implementation date of this decision.

For each utility, a separate payment from each utility shall be required to reimburse DWR for its shortfall in costs that have already been incurred from the period when DWR began procuring power on behalf of the customers of that utility's service territory up through the date when the prospective monthly payment of charges prescribed in this order takes effect. These payments shall be made out of amounts previously collected by the utility from customers pending allocation between DWR and the utility. In prior orders, we have established interim amounts that each utility was to pay to DWR pending the final determinations made in the instant order.

PG&E and SCE should already be collecting and remitting to DWR an amount determined by multiplying the sum of their utility-specific generation rate and the energy surcharge rates as authorized by the Commission in D.01-05-064 by the volume of power delivered to their customers on behalf of

24. DWR's revenue requirement does not include a provision to account for franchise fees associated with power that it sells to utility customers.

25. Unresolved questions remain concerning the rights of municipalities to receive franchise fees on DWR power sales, and the respective obligations of DWR or investor-owned utilities to collect and remit franchise fees on DWR power sales.

26. DWR's revenue requirement is comprised of cost categories as authorized for recovery from utility ratepayers under AB1X, including the costs of long term and short term power contracts, ancillary services, administrative overhead, demand-side management, uncollectibles, and an allowance for leads or lags in cash receipts and disbursements.

27. DWR's revenue requirement is based on forecasts of various costs that may prove to be incorrect over time.

28. The allocation of DWR's revenue requirement as adopted in the ordering paragraphs below results in a revenue responsibility (in dollars and percentages) for PG&E's service territory in the amount of \$ 4,507,238,000 (49.8%); for SCE's service territory of \$3,553,841,000 (39.3%); and for SDG&E's service territory of \$984,383,000 (10.9%).

29. The allocation of DWR's revenue requirement as adopted in the ordering paragraphs below results in a uniform cents per kWh charge applicable to billed revenues for PG&E's service territory in the amount of 9.295; for SCE's service territory in the amount of 9.744; and for SDG&E's service territory in the amount of 7.121.

30. The Commission has traditionally recognized the general principle that utility revenues should be allocated among customer classes on the basis of cost causality.

62. Truing-up the utility RSBA at a later date will ensure that the utility bills, and its customers pay (over time), the imputed rate for utility-supplied power.

63. The applicable kWh sales for computing prospective remittances under the DWR charges established in this order cover the period from March 15, 2002 through December 31, 2002.

64. It will be necessary for each utility to remit to DWR payments in separate installments for DWR energy delivered to customers prior to March 15, 2002, to the extent that prior interim remittances to DWR were less than the amounts indicated for those prior periods under the allocation of DWR's \$9.045 billion revenue requirement as adopted herein.

65. The servicing agreements that have been approved for each of the utilities includes provisions prescribing the billing, collection, and related services to be performed by each utility relating to AB1X-authorized power purchases by DWR.

66. Although D.01-09-015 allows PG&E to seek Bankruptcy Court approval of its servicing agreement, the Bankruptcy Court has not yet approved PG&E's servicing agreement.

67. Even though the Bankruptcy Court has not approved PG&E's servicing agreement, the relevant language in PG&E's servicing agreement pertaining specifically to the billing, collection, and remittance of funds to DWR can still be independently extracted and incorporated for use in this order.

68. The FERC has recently confirmed that DWR, as the creditworthy party, is responsible for Imbalance Energy charges for PG&E.

Conclusions of Law

Because this decision construes, applies, implements, and interprets the provisions of AB 1X (Chapter 4 of the Statutes of 2001-02 First Extraordinary Session), Section 1731(c) (applications for rehearing are due within 10 days after

and 7.121 for SDG&E. These charges shall apply to each DWR-supplied kWh included on bills rendered on or after March 15, 2002.

4. The cents per kWh charges referenced in Ordering Paragraph 3 above shall remain in effect for each utility through December 31, 2002 (unless DWR indicates an earlier adjustment is needed), and shall provide recovery of the DWR revenue requirement applicable through that period. Updated DWR charges shall be scheduled to take effect for customers in each of the utilities' service territories beginning on January 1, 2003, covering the DWR revenue requirement for the forecast period from January 1, 2003 through December 31, 2003.

5. To the extent it has not already done so, each utility shall remit an additional payment to DWR representing amounts owing for DWR power delivered to that utility's customers and billed prior to March 15, 2002. The payment shall be based on the difference between the applicable interim charges that have already been remitted to DWR and the amounts that are due based on the DWR revenue requirement allocated in this order to each utility through March 15, 2002. The utilities shall remit the payment to DWR, amortized in equal monthly installments over a six-month period. All other sums to be forwarded to DWR pursuant to Ordering Paragraph 3 shall be sent at the time specified in the servicing agreement (for SDG&E and SCE) with which the Commission has ordered the utilities to comply.

6. In the case of PG&E, because its servicing agreement has not been approved by the Bankruptcy Court, PG&E shall be permitted to continue using its current procedures to remit payments to DWR.

7. Each of the utilities shall be required to remit the total amount of DWR energy, including scheduled and real-time imbalance energy, delivered to